

Message Text

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ACTION AF-10

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L-03 NSAE-00 NSC-05 PA-01 SP-02 SS-15 ICA-11

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FM AMCONSUL DURBAN

TO SECSTATE WASHDC 2912

INFO AMEMBASSY PRETORIA

AMCONSUL CAPE TOWN

AMCONSUL JOHANNESBURG

AMEMBASSY MASERU

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CAPE TOWN ALSO FOR EMBASSY

EO 11652: NA

TAGS: PINT, EAID, EGEN, SF (TRANSKEI)

SUBJ: POLITICAL ISSUES IN TRANSKEI 1978/9 BUDGET

REF: A. DURBAN 092, B. STATE 037874

1. THE R328 MILLION (\$377 MILLION) TRANSKEI NATIONAL BUDGET INTRODUCED IN THE ASSEMBLY BY PRIME MINISTER KAISER MATANZIMA IN APRIL IS UP 38 PERCENT OR R90 MILLION (\$103 MILLION) FROM THE FIRST FULL POST-INDEPENDENCE BUDGET OF R238 MILLION (273 MILLION) IN 1977. TWO ITEMS OF POLITICAL SIGNIFICANCE WERE THE PROPOSED SOURCE OF FUNDING FOR THE FORECAST DEFICIT OF R103 MILLION (\$118 MILLION); AND, CONFIRMATION OF A CONTINUED, AND SOMEWHAT EXPANDED, SAG CONTRIBUTION FOR TRANSKEI.

2. FINANCE MINISTER TSEPO LETLAKA ANNOUNCED THAT THE FUNDING OF THIS YEAR'S LARGE DEFICIT WILL BE MADE IN WORLD CAPITAL MARKETS (31 PERCENT OF TOTAL REVENUE WILL HAVE TO BE BORROWED)

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AS OPPOSED TO 15 PERCENT LAST YEAR). HE DID NOT ELABORATE BUT PRIVATELY TOLD NEWSMEN HE WAS OPTIMISTIC THAT FINANCING FROM "ARAB SOURCES" COULD BE ARRANGED. COINCIDENT WITH THIS ANNOUNCEMENT A WEST GERMAN CITIZEN, EWALD KRANZ AND AN AMERICAN "FINANCIER" INTIMATED IN UMTATA THAT THEY WERE THERE TO FINALIZE A LOAN OF R167 MILLION (\$192 MILLION) FOR TRANSKEI. KRANZ IS KNOWN TO POST IN CONNECTION WITH EARLIER EXPRESSED

PLANS TO RAISE SUCH A LOAN IN THE U.S. (REF A). AFTER INVESTIGATION OF KRANZ' ACTIVITIES IN THE U.S., THE DEPARTMENT IN FEBRUARY REPORTED A \$200 MILLION LOAN FOR TRANSKEI FROM SAUDI ARABIAN SOURCES HAD APPARENTLY BEEN ARRANGED THROUGH A U.S. BROKERAGE FIRM (REF B). THERE HAS BEEN NO FURTHER PUBLIC CONFIRMATION OF SUCH A LOAN AND IN FACT TRANSKEI HAS LITTLE COLLATERAL IT COULD OFFER INDUCE ONE. IT HAS NO SIGNIFICANT NATURAL RESOURCES OR EXPORTABLE COMMODITIES NOR AN INDUSTRIAL BASE TO PROVIDE THE INCOME NEEDED FOR REPAYMENT. IN ADDITION, THERE IS NO INDICATION THE SAG WILL GUARANTEE THIS LOAN, THOUGH LAST YEAR THEY DID BACK A MORE MODEST R38 MILLION (\$44 MILLION) LOAN RAISED BY TRANSKEI FROM THE SOUTH AFRICAN CAPITAL MARKET TO FINANCE THE 1977 BUDGET DEFICIT.

3. THE SAG CONTRIBUTION TO THE TRANSKEI BUDGET IS UP 5 PERCENT FROM THE 1977 LEVEL, TO R173 MILLION (\$199 MILLION). WHILE THIS SUM IS 52 PERCENT OF THE TOTAL BUDGET IT IS A FAR SMALLER PROPORTION THAN THE 70 PERCENT OF THE SAG CONTRIBUTION REPRESENTED IN THE FIRST FULL POST-INDEPENDENCE BUDGET. THE CONTRIBUTION IS PART A TRANSFER PAYMENT AND PART A GRANT, AND AVAILABLE FIGURES MAKE IT DIFFICULT TO DETERMINE ACCURATELY THE RELATIVE SIZE OF EACH. THE CONTRIBUTION INCLUDES R60 MILLION (\$69 MILLION) IN CUSTOMS FEES (AN ARRANGEMENT SIMILAR TO THAT BETWEEN THE BLS STATES AND SOUTH AFRICA) AS WELL AS A LUMP SUM PAYMENT OF R113 MILLION (\$130 MILLION) WHICH INCLUDES SOME TRANSFER PAYMENTS OF TAXES COLLECTED IN S.A. ON BEHALF LIMITED OFFICIAL USE

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OF TRANSKEI FROM BUSINESSES AND ITINERANT WORKERS AS WELL AS A LARGE DIRECT GRANT COMPONENT. WHILE THE BUDGET WAS PREPARED BEFORE THE BREAK IN RELATIONS BETWEEN SOUTH AFRICA AND TRANSKEI, THE SPEECH INTRODUCING THE BUDGET AND INDICATING CONTINUANCE OF THE SAG PAYMENTS WAS MADE AFTER THE BREAK AND CONFIRMED THAT, AT LEAST FOR THIS YEAR, THE SAG INTENDS TO COMPLY WITH FINANCIAL AGREEMENTS IN FORCE BETWEEN THE TWO GOVERNMENTS. FARBER

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